

Rhode Island Public Transit Authority

Joint Pension Board

Minutes of the March 25, 2009 ~ 11:00 a.m. Meeting

Joint Pension Board Members Present: John Rupp, Chairperson; Stephen Farrell; Kevin Millea; Christine Johnston, Rochelle Lee and substitute member Bill Kennedy.

Ms. Lee joined the meeting in progress at approximately 11:40 a.m.

Absent: John MacDonald (deceased)

Also Present: Alfred J. Moscola, General Manager; Lori Caron Silveira, Outside General Counsel; Henry Kinch; Maureen Neira; Maureen Ruzzano; Ellen Mandly and members of the RIPTA staff and the general public.

Mr. Kennedy was asked to serve as an alternate JPB member at today's meeting in place of John MacDonald who passed away unexpectedly on March 20, 2009. Mr. Kennedy kindly agreed to act as an alternate member at the meeting so a quorum could be achieved.

Agenda Item 1: Approval of Minutes of February 23, 2009 Monthly

Meeting

Mr. Rupp asked if the JPB members had an opportunity to review the revised minutes of the February 23, 2009 meeting, and the members indicated that they had.

A motion to approve the minutes as presented was made by Mr. Kennedy; seconded by Ms. Johnston and passed unanimously.

At this point Mr. Farrell asked for a moment of silence in honor of JPB Board member John MacDonald who passed away on Friday, March 20th. A moment of silence was observed. Mr. Farrell announced that Mr. MacDonald's wake was being held that day and Mrs. Mandly gave the details on the wake.

Next Mr. Moscola asked for a moment of silence for deceased trolley mechanic Dennis Woodbine who was employed at RIPTA for 29 years and died on March 17th. A moment of silence was observed.

Agenda Item 2: Convene as Pension Benefit Sub-Committee

- Consideration of Benefits' Requests – Division 618/618A**

- o JPB Action: Michael Ruggieri – Former Employee – Age 51
Request for Disability Pension effective 2/1/09 - \$788.61**

Maureen Ruzzano explained the specifics of Mr. Ruggieri's pension benefits and the sub-committee consisting of Mr. Millea and Mr. Rupp voted their approval of the request.

Agenda Item 3: Asset Allocation Presentation by Lazaro Guzman, Prudential Retirement Services and David Ward, Angell Pension Group

Ms. Neira introduced Lazaro Guzman from Prudential Retirement Services and David Ward from Angell Pension Group to the Board. Mr. Guzman said that the following three documents had been included in the Board package: 1) Prudential Investment Policy Statement 2) RIPTA's Salaried and Hourly Plans Risk & Return Analysis and 3) an article by Prudential entitled "Common Stock Returns: a Long-Term Historical Perspective.

Mr. Guzman stated the twofold purpose of today's presentation was to establish a long term investment policy and to determine the investment allocations. He then gave a recap of the 2008 performance of the retirement plans saying they performed favorably, considering the current economic downturn and that they had outperformed the S & P. Mr. Guzman asked for Mr. Ward's opinion on the performance of the plans and Mr. Ward said that Angell Pension Group administers hundreds of pension plans and agreed that the performance of the plans was commendable considering the tough economic climate and the returns better than other plans he

administers.

Mr. Guzman went through each page of the investment policy and said the policy had been established to serve as a management tool and provide the framework for decisions. He said that RIPTA sponsored the plan to help provide its employees with retirement income and to attract, reward and retain employees. Mr. Guzman continued saying the investment objective is long-term growth without exposing the principal to undue risk and to maximize investment return commensurate with appropriate levels of risk.

Mr. Guzman discussed his role and responsibilities such as giving information of a factual nature to assist in asset allocation strategy and assisting in prudent selection and monitoring of the plans. He said the Committee's role includes such things as maintaining an investment policy and prudently selecting investment options and that it is important that he and the Committee work together.

Next Mr. Guzman focused on the Investment Alternatives discussed on page six of the Investment Policy Statement saying the funds chosen have had the same managers for at least five years and are with firms with proven track records and that managing risk is a key component. He said that after all investment alternatives are considered the Committee and Plan Administrator then determine the appropriate long-term asset allocation for each plan. Mr. Guzman said they typically work with Angell Pension to determine projected

benefit payments, funding strategies and to determine how much to put into equities and how much into fixed income. He said they compare the funds to those of our peers and to the equity index and that they look at the one-year returns but they focus and place more weight on the 3 & 5 year performance.

Mr. Guzman discussed termination on page eight which says at the plans discretion it may be decided to terminate a fund or identify a replacement fund in the same asset class and style. He continued referencing the policy by highlighting asset allocation, global portfolio strategies and the chart on page twelve which illustrates asset class, peer groups and benchmarks.

He concluded discussing the policy by saying it is a good practice to have an investment policy statement which is a solid framework for making decisions. Mr. Ward added that some accounting standards require disclosure of a policy so it's important to have one in print.

Mr. Guzman moved on to the salaried and hourly plans Risk & Return Analysis document. He said that this topic had been covered in the past, but he would walk the committee through it again. He began with the salaried plan which shows the current long term strategy at 80% stable value and the remaining 20% in equities. Mr. Farrell asked if this was based on 10 years and Mr. Guzman replied that the document showed the returns at 1, 3, 5 and 10 years and he referenced the one year horizon on page 1 which shows the range of

returns for one year with a 95% probability. Mr. Farrell asked if Mr. Guzman felt any funds should be terminated or replaced immediately.

Mr. Guzman said he did not and that the current focus is asset allocation and changes can be discussed at future meetings.

Mr. Guzman continued discussing the range of returns on page 1 and said the asset mix he will be recommending is Mix 3. He said he based this decision on the projected benefit payments he received from Angell Pension Group and said the plan can support this type of equity exposure and meet its obligations. The key is that there will be enough liquidity to meet the obligations going forward and allow for an asset mix of 50/50 to allow for some capital appreciation. He said the mix is mostly bonds with a principal and interest rate guarantee. He added that the average rate of return for Mix 3 is 7.5%, an additional 1% over the current average of 6.5% and bringing the salaried plan more in line with the hourly plan.

Mr. Guzman said that by increasing the equity exposure, the long term average returns should go up, but on a year over year basis it will introduce a little more volatility to the returns. The contributions on a year over year basis may also become a little more volatile but on average those contributions should come down. Mr. Guzman asked Mr. Ward to comment on this. Mr. Ward said that the actuary's role is to measure the liability and Mr. Guzman's role is as the expert on the assets and monitoring the rates, positions and strategy. He said his expertise is in advising the Committee on the plan liabilities,

projecting long term payment streams from the plan and annually to conduct an actuarial evaluation. He said that in monitoring the liabilities they have to make an assumption about the rate of return and in the past there has not been a formalized investment policy making it difficult to discuss rate assumptions. Mr. Ward said these questions are reduced when a formal policy is established and both plans have the same long term policy. He said a 7.5% rate of return would be consistent in their evaluation report as they evaluate liabilities. Mr. Guzman added that moving to a slightly more aggressive investment policy would on average bring down the contributions over the long term. Mr. Ward agreed and said they monitored the rate of return of the plan which is rather volatile, especially for the hourly portion, but observed that until this last year the hourly portion was achieving a higher rate of return year by year.

Ms. Johnston asked if long term was defined as 5 or 10 years and Mr. Ward said actuarially long term is 10, 20 and up to 40 years. He said due to today's unusual economic climate they are looking beyond 10 years.

Mr. Guzman continued saying ultimately he would like the plan to be at 50% fixed income and 50% equity. He said that this is more aggressive than where we are today, but noted that most plans are more aggressive at 60% equity, 40% fixed and that we would be slightly more conservative than your average pension plan. Mr. Farrell asked for Mr. Guzman's recommendation and he said that he

recommends that by 2011 the plan is shifted from 80/20 to a 50/50 mix. He said there are limitations and that the shift would have to be made over time. In terms of trajectory, he said this year we can achieve Mix 1 and change to a 65% fixed income and 35% equity, in 2010 move close to Mix 2 and finally achieve a 50% equity, 50% fixed income mix by early 2011. He added that over the next 10 years they are optimistic about the performance of equities versus fixed income securities.

Mr. Guzman then answered a question from Mr. Rupp regarding concerns over liquidity and said that liquidity was taken into account and he still believes Mix 1 is the right way to go this year. Mr. Ward commented that liquidity is a critical question as a major concern of the plan is being able to make ongoing payments of benefits and also to help the plan achieve a better funded status. He said at this point the plan is not 100% funded, but at some point in the future when the plan achieves better than 90% funding it would be appropriate to reconsider long term goals and agendas.

Mr. Guzman noted that currently in the salaried plan there is no exposure to midcaps but going forward as we increase the equity exposure he would like to diversify and introduce midcaps such as those in the hourly plan. He then noted the range of returns in a 1-year period and then at 3, 5 and 10 years and said over the long term the bands become narrower financial markets perform more in line with long term expectations.

Kevin Millea asked if there was any advantage to keeping the plans separate. Mr. Guzman replied that from an investment perspective, he had no comment. Mr. Ward said that from an actuarial perspective actions had been taken to make both plans uniform and that they were structured separately due to past practice. He said the intent over the past several years has been to make them more uniform. Mr. Millea asked if there was any reason to not merge them and Mr. Ward said the fixed income assets in the salaried plan has some contractual limitations and that the legal documents for each plan have slightly different provisions. Mr. Ward said it would make sense for both parties to have the same provisions. Mr. Millea asked if the expenses would be less and Mr. Ward said possibly and added that at this point all possible steps available to make the plans uniform have been taken. Mr. Ward said there is very little additional actuarial expense due to having two plans and Mr. Guzman added that Prudential's fees are based on percentage of total assets so the additional plan charge is small.

Mr. Guzman reiterated that they would like to ultimately implement Mix 3 in 2011 but for this year would like to implement Mix 1 to increase the expected return from 6.5% to 7%. He noted that Mix 1 would be implemented a third at a time on April 1st, May 1st and June 1st to take advantage of dollar cost averaging and avoid volatile market swings.

Ms. Silveira asked if Mr. Guzman was recommending the Committee vote today to adopt the investment strategy of Mix 1 or Mix 3 and Mr. Guzman said he recommends the Committee adopt Mix 3 for the salaried plan long term.

Mr. Rupp asked if Mr. Guzman was asking for authority today to move to Mix 1 and Mr. Guzman said he was asking for authority to move to Mix 1 beginning April 1st by moving a third of the funds and then moving remaining funds in thirds on May 1st and June 1st with the goal being to ultimately move to Mix 3 by 2011. Mr. Farrell made a motion to adopt the investment policy as recommended by Mr. Guzman. Ms. Johnston seconded the motion and the motion passed unanimously.

Mr. Guzman noted that once Mix 1 is achieved, on a quarterly basis Prudential will rebalance the funds as necessary. Mr. Guzman answered questions about rebalancing.

Next Mr. Guzman discussed the hourly plan saying the plan was brought in at a 50/50 mix last year, but given the deterioration of the equity markets the equity component became smaller so it's now 60% fixed income and 40% equities. Going forward he would like to establish an investment policy that gets the plan back to 50/50. He referenced the RIPTA Hourly Plan page of the Risk & Return Analysis and said he would like to move to asset Mix 1 this year. He added that currently there is 0% in real estate and he would like to change

this by adding a 3% real estate component using Cohen & Steers and move over 3 months beginning April 1st as with the salaried plan. Mr. Guzman then answered questions regarding Cohen & Steers previously being on Prudential's watch list.

Mr. Guzman asked for a vote by the Committee to move to Asset Mix 1 in three phases on April 1st, May 1st and June 1st. Mr. Farrell made a motion to adopt the Asset Mix 1 investment strategy for the hourly plan as recommended by Mr. Guzman. Ms. Johnston seconded the motion and the motion passed unanimously.

The Committee thanked Mr. Guzman for his very informative presentation. Mr. Rupp asked that Mr. Guzman come back before the Committee in approximately 6 months to discuss merging the plans if the market is less volatile.

Agenda Item 4: Adjournment

A motion to adjourn the meeting was made by Stephen Farrell and seconded by Christine Johnston. Such motion passed unanimously and the meeting was adjourned.

Respectfully submitted,

Ellen M. Mandly

Recording Secretary